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SUBJECT: UNITED NATIONS PENSION SYSTEM DEBATE

REF: A. USUN 01620
[1](#)B. A/61/545
[1](#)C. A/61/9

[1](#)1. SUMMARY: On November 10, the Fifth Committee (Administrative and Budgetary) of 61st United Nations General Assembly held its formal opening consultations on the UN Pension Fund and on the Joint Staff Pension Board. United Nations Joint Staff Pension Board Chairman presented the outcomes of the Board's July 13-21 meeting in Nairobi. Speaking as the Representative of Secretary-General (RSG), UN Controller Warren Sach discussed the performance of the Fund's investments and the overall financial situation. Advisory Committee on Administrative and Budgetary Questions (ACABQ) Chairman Rajat Saha presented the ACABQ's evaluation of the Board's report. Following these presentations, regional groups and individual Member States made statements on the Fund's performance and the Board's activities. Developing states commented on the Board's recent major investment decisions and the failure to suitably support developing markets and "economically disadvantaged" retirees. Many Member States expressed views that there are areas for improvement within the Fund's management of its portfolios and investments. END SUMMARY

PRESENTATION BY PENSION BOARD CHAIRMAN

[1](#)2. Vladimir Yossifov, Chairman of the United Nations Joint Staff Pension Board, discussed key issues addressed in the Board's report. Mr. Yossifov noted the Fund's fifth consecutive actuarial surplus and the Board's subsequent decision to reverse some of the economic measures taken in the 1980's during the Fund's lean years. The report also recommended that the General Assembly concur with the revised UNJSPF-World Bank Group Transfer Agreement, and the Pension Board's decision to admit the International Organization for Migration (IOM) to the Fund. Mr. Yossifov mentioned the contentious decision to "passively" manage the North American equity portfolio, which has been under performing due to the competitiveness of the market (see Reference A, USUN 01620).

[1](#)3. Turning toward other administrative matters, the Chairman noted that the revised budget for the 2006-2007 biennium showed a net increase of \$2.4 million, due to the Board's recommendation of additional resources for various administrative, investment and audit purposes. Aside from the transition costs for moving the North American equities portfolio to passive management, the Board agreed to recommend five new posts for the Investment Management Services (IMS). This is in response to growing concerns that the Pension Fund staff has been outpaced by the rapid growth of the Fund since 1990 (the Fund's assets currently amount to \$34.0 billion). Despite the formation of a Working Group to review the size and composition of the Pension Board and its Standing Committee, the Board decided to maintain its current size and composition. The Chairman noted the Board adopted other recommendations to improve efficiency, such as holding

annual sessions beginning in 2007 and attempting to limit the agenda of the Board.

PRESENTATION BY THE REPRESENTATIVE OF THE SG:UN CONTROLLER

¶4. UN Controller Warren Sach then gave a statement on behalf of the Representative of the Secretary-General (former Under-Secretary for Management Christopher Burnham) regarding the investments of the Pension Fund. The Controller first reviewed the changes made during the biennium and the Fund's performance, which improved over the past biennium. The market value of the assets of the Fund reached an all-time high of \$35.145 billion, and the Fund increased its investments to developing countries by 8 percent, to \$1.8 billion. The Controller stressed the importance that the Fund be forward-looking and careful in its investment. He also expressed concern about the insufficient staffing to manage such large assets, as well as about the chronic under performance of the North American equity portfolio. He recommended that risk control within IMS shift to a more coordinated, total portfolio risk budgeting approach.

PRESENTATION BY ACABQ

¶5. Advisory Committee on Administrative and Budgetary Questions Chairman (ACABQ) Rajat Saha then gave a short verbal presentation of the findings of the ACABQ review of the Pension Board's report (See Reference B, A/61/545).

VIEW FROM DEVELOPING COUNTRIES: G77 AND CHINA

¶6. The South African representative (speaking on behalf of the G77 and China) highlighted the lack of reporting clarity and the low investments in developing countries, as key concerns. The G77 Chair requested explanations for the failure to implement the recommendations of the Board of Auditors, rationalizations for significant changes in investment policy, and a clarification of the actuarial dimensions of the Fund. The delegate also asked for an explanation of the rationalization to passively manage the North American equity portfolio, as the existing rationale appears to be contradictory. G-77 expressed concern about the small staff size managing the Fund, and stated that issues of the governance of the fund should be reviewed, given its growth and evolution since it was established. The G-77 reiterated that vacancies in the IMS and the secretariat of the Fund should be filled expeditiously.

¶7. The Group emphasized the need to invest in developing countries, citing specifically declining investments to Latin America. The Chair stated that investments in Latin America do meet the Funds four criteria of safety, profitability, liquidity and convertibility and could serve as a spur for economic growth and job creation. The G-77 expressed concern about the lack of action taken by the Board in response to a General Assembly request to provide information on pensioners in Ecuador who have been negatively impacted by the dollarization of their economies. The Group requested an elaboration of measures to mitigate the consequences of the dollarization process. The Rio Group and Ecuador reiterated this concern in separate statements.

¶8. The Nigerian delegation additionally stressed the inefficiency of having just one person manage the Fund, and reemphasized the desire to see an increase in investments to developing countries.

VIEW FROM THE RUSSIAN FEDERATION

¶9. The Russian Federation highlighted that shifting to a passive management operation for the North American equities market would involve a substantial cost and should be done in a cost-effective manner.

VIEW FROM DEVELOPED NATIONS

¶10. Speaking on behalf of the European Union, the Finnish delegation noted the eight (8) percent increase in investments to developing countries and urged the Fund to remain prudent with its investment policy due to the unpredictable nature of currency and stock markets worldwide. The EU expressed concern over the lax performance monitoring by the Investment Management Service, the deficiencies in the trade order management system and the yet unfilled positions on risk management and compliance in IMS. The EU voiced support for the Audit Committee and reiterated the importance of appointing the experts, as recommended by ACABQ.

¶11. U.S. delegation welcomed the Board's decision to passively manage the North American equity portfolio, and recommended that the Secretariat report on the progress made in implementing the plan. However, the U.S. delegate reiterated concerns about the need to resort to a vote. The U.S. then asked for clarification of the Board's decision to allow the actuarial surplus to fall below one percent in order to reinstate benefits. U.S. expressed reservations about the decision to send the Fund's CEO to find out more about "economically disadvantaged" retirees, as the General Assembly had previously decided that no benefit improvements could be made until benefit reductions were fully restored. The U.S. also highlighted concern about the failure of the Board to implement its Working Group's recommendations about adjusting the size and composition of the Board. Finally, the U.S. reiterated that, in the interest of transparency, the need for Member States to have full and adequate access to audit and oversight information.

COMMENT

¶12. Due to the rapid growth of the Fund's assets in recent years, Member States are calling for improvements in the Fund's management through greater hands-on supervision of its assets and additional personnel support. The current trend of growth is also prompting Member States from developing countries to request improving the benefits for retirees, and to invest in their markets, which may from the perspective of developed countries substantially increase risk and adversely

affect the Fund's health. The issue of providing relief to economically disadvantaged beneficiaries in Ecuador appears to be one of the pillars of the G77 negotiation platform. Additionally, G77 and NAM Member States are repeatedly raising concerns that the former Under-Secretary-General for Management, an AMCIT, circumvented established procedures to implement his preferred Pension Fund management strategy.

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